



# Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

## Budget Subcommittees Report on SB 1261

May 23, 2002

### Overview

Mike Genest, Staff Director / Tom Sheehy, Principal Consultant

***This report includes all subcommittee actions to date on the Senate Version of the budget. The Senate will likely vote on the budget next week, and this report will be updated to reflect any changes.***

### **SB 1261 as amended by the subcommittees of the Senate Budget and Fiscal Review Committee**

- The table below summarizes the actions of the subcommittees as of May 22, 2002.
- As the table shows, the subcommittees increased the total funds in SB 1261 as compared to the amounts proposed in the Governor's Budget, as Revised, by \$1.54 billion, or 1.03 percent.
- The subcommittees increased the General Fund spending as compared to the amounts proposed in the Governor's Budget, as Revised, by \$977.7 million, or 1.3 percent.
- The major General Fund increases are:
  - \$968 million added to the Health and Human Services portion of the budget, primarily reflecting restoration of various cuts proposed by the Governor in programs such as Medi-Cal, County Administration, and SSI/SSP.
- A detailed description of the actions of the subcommittees begins on page one of this budget brief.

#### ***Dollars in Thousands***

<b><i>Fund</i></b>	<b><i>Governor's Budget As Revised</i></b>	<b><i>Senate Changes</i></b>	<b><i>Senate Totals</i></b>
<b><i>Net General Fund</i></b>	\$76,497,832	\$977,737	\$77,475,569
<b><i>Special Funds</i></b>	19,468,452	-8,945	19,459,507
<b><i>Bond Funds</i></b>	2,945,924	-237,725	2,708,199
<b><i>Federal Funds</i></b>	49,911,675	809,439	50,721,114
<b><i>Total</i></b>	\$148,823,883	\$1,540,506	\$150,364,389

**The following sections, broken out by subcommittee, provide an overview of all the actions taken by the Senate on the Governor's Budget, as Revised.**

## Subcommittee 1 (Education)

Consultants: Roger Mackensen, Therese Tran

### *Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Senate Changes</b>	<b>Senate Totals</b>
<b>General Fund</b>	\$38,882,006	\$32,578	\$38,914,584
<b>Special Funds</b>	824,833	0	824,833
<b>Bond Funds</b>	1,279,539	-230	1,279,309
<b>Federal Funds</b>	12,104,275	-9,421	12,094,854
<b>Total</b>	\$53,090,653	\$22,927	\$53,113,580

## K-12 EDUCATION

### Proposition 98 Overview

SB 1261 proposes \$47.2 billion (\$32.2 billion General Fund, \$15.0 billion local property tax) in constitutionally-mandated Prop. 98 funding for K-12 schools and community colleges for 2002-03. This represents a \$1.7 billion (or three percent) increase over the Budget Act of 2001 (\$200 million of which is General Fund). Prop. 98 per pupil spending increases from \$7,009 provided in the Budget Act of 2001 to \$7,186 in SB 1261. From all sources (state, local, lottery, and federal), total K-12 spending in SB 1261 is \$56.5 billion (a seven percent increase), or over \$9,600 per pupil.

**SB 1261 Shifts Old Bills to New Line of Credit** - As noted above, Prop. 98 minimum spending increased \$1.7 billion over the current year. Typically, this increased funding obligation would have resulted in proposals for new programs, expansions of existing programs, and increases in discretionary funding. Instead, the budget proposes to use most of this \$1.7 billion increase to pay for obligations incurred in the *current year*. While some call this a mere deferral, in effect SB 1261 is using "new" income to pay old debts. The resulting opportunity cost means \$1.2 billion *less* for program improvement and increased flexibility for schools in the budget year. Funding for the following current year programs will be deferred into the budget year, pending enactment of urgency legislation that takes effect prior to July 1, 2002:

- Instructional Time and Staff Development Reform Program \$76 million
- Standardized Testing and Reporting (STAR) Program \$61 million
- Beginning Teacher Support and Assistance (BTSA) \$39 million
- Targeted Instructional Improvement (formerly Desegregation) \$713 million
- Governor's Performance Awards \$144 million
- Community College programs selected by the Chancellor \$116 million
- TOTAL DEFERRALS \$1.149 billion

**Arcane Shift Saves Current Year General Fund Dollars at Expense of Schools** - SB 1261 takes \$503 million in unexpended current year funding that had been proposed for expenditure in the budget year and shifts the funding back to the current year, reducing the current year Prop. 98 funding level. This somewhat arcane action has the effect of reducing K-12 expenditures in the current year while freeing up "real" General Fund dollars. Unfortunately, this funding that had been earmarked for a budget year expenditure on instructional materials, school libraries, and science lab equipment was not be fully restored using budget year dollars. Thus, the \$158.5 million for school libraries and the \$25 million for K-4 classroom libraries that schools have been receiving has been slashed to just \$17.5 million for both programs. Put another way, the \$30 per pupil schools have been receiving for libraries will be only \$3 in 2002-03.

**Despite the Cuts to Local Schools, SB 1261 Expands State Bureaucracy** - While schools across the state are cutting staff and canceling programs due to the cuts, SB 1261 adds 30 new staff and \$17.9 million (federal funds) for the State Department of Education (SDE). In addition, the budget provides \$2.1 million (General Fund) for the cost of “dual occupancy” associated with an earlier anticipated date for the SDE’s move into their new building.

**SB 1261 Squanders Opportunities Offered by Bush’s Increased Federal Funding** - The federal No Child Left Behind Act championed by President Bush provides an increase of \$738 million for California. SB 1261 would appropriate this funding largely as follows:

- \$17.7 million to further develop the state’s system of testing and accountability.
- \$131.1 million for the new federal Reading First Program directed for pupils in grades K-3, pursuant to state legislation to be enacted.
- \$108.3 million for English language acquisition programs.
- \$297.3 million for Title I Grants. Of this amount, \$29 million would be spent on school improvement and intervention programs, pursuant to legislation.
- \$109.2 million to enhance teacher quality. SB 1261 places first call on this funding to mitigate costs of class size reduction programs. \$1.5 million is for principal training.
- \$41.3 million for federal After School programs.
- \$2.4 million for the federal Rural and Low Income Schools program.

**SB 1261 Abandons Promise of School Accountability** – SB 1261 virtually abandons the 1999 legislation establishing a rigorous statewide school accountability program. The original accountability legislation required low-performing schools to meet their academic growth target or show “significant improvement” after two years of receiving \$200 per pupil improvement grants. Recently, however, the Governor’s State Board of Education defined “significant improvement” as any increase (even one point) in *either* of the two funded years (ignoring any decrease, even if greater than the improvement). Now that some 50 schools will soon face the sanctions of the original law, SB 1261 proposes that these failing schools develop yet another improvement plan. Six million dollars is provided to fund “corrective action plans,” pursuant to legislation. The Governor and Legislature appear to have abandoned the concept of “improvement or else” for “funding failure for as long as it takes.” Related adjustments include:

- Eliminating the \$157 million in budget-year funds for awards to schools that have met or exceeded their Academic Performance Index targets. \$77 million in current-year will be spent in the budget-year
- Increasing to \$217 million funds for the flawed High Priority Schools program enacted last year. This program, which has only provided planning grants thus far, weakens the accountability program and increases funding for failing schools. Moreover, the provision of planning grants creates budget year plus-one cost pressures.

**Revenue Limit COLA** - State law requires a COLA for K-12 programs of 1.66 percent in 2002-03. SB 1261 proposes a 2.0 percent revenue limit COLA. Interestingly, state law also permits school districts to lay off employees any year in which the COLA provided by the state is less than 2.0 percent. While this increase in general purpose funding appears to provide schools with increased flexibility, in fact the opposite may be true since this artificially increased COLA actually ties the hands of local governing boards in trying to balance their budgets and meet the needs of their communities.

**Other Significant Adjustments** - SB 1261 makes numerous other expenditure adjustments. Listed below are some of the more significant adjustments based on dollar amounts or policy implications:

- \$118.7 million in federal special education funding is utilized to offset state special education program growth and COLA costs. While the federal government this year significantly increased

special education funding to help reduce special education costs at the local level, SB 1261 fails to pass the funding through to locals, using it instead to pay for state costs.

- SB 1261 cuts funding for textbooks \$22.8 million in the budget year, from \$422.8 million in 2001-02 to \$400 million in 2002-03.
- SB 1261 slashes school library funding \$166 million in the budget year. The current year provides \$183.5 million for school and K-4 classroom libraries; the budget provides only \$17.5 million for 2002-03.
- The budget cuts \$8 million in funding from scholarships for students who distinguish themselves in mathematics or science.
- The Certificated Staff Performance Awards program is zeroed-out in the budget year. The Budget Act of 2001 had provided \$100 million for the awards.
- \$8 million is cut from the Secondary Schools Reading Program, which is eliminated.
- \$30 million is cut from the Teaching as a Priority Block Grant, which provides funding to help recruit and retain teachers at low-performing schools. \$88.7 million remains for this program.
- \$31.7 million is provided for the Math and Reading Professional Development Program. \$100 million had been provided in the current year for this program.
- Funding (\$7.5 million) is eliminated for payment to school districts to collect and report school crime data. The intent is that new federal funding will cover the requirement.
- \$42 million and \$36 million are provided for equalization and to fund the PERS offset, respectively.

### **Child Care Reform on Hold**

The January budget proposed a major reform to California's subsidized child care system that would have required a co-payment, as well as increased the number of child care slots. However, the reform has been put on hold due to dissension among child care advocacy groups. The current child care system will be retained with no policy changes. Total state and federal funding proposed next year for child care is approximately \$3.1 billion.

**Stage 3 Child Care Moves Towards Entitlement** – California's subsidized child care consists of three components identified as Stages 1, 2, and 3. Stages 1 and 2 provide child care to families currently on CalWORKs, and those who are transitioning off CalWORKs, respectively. Stage 3, however, serves families that have left CalWORKs but are still below a specified income level. This last Stage of child care has historically been funded at the discretion of the administration and the Legislature. In other words, unlike other entitlement programs, it is not mandatory that the caseload growth be fully funded. For the first time, due to extensive pressure from the child care advocacy groups, the budget provided full funding for caseload growth last year. Funds were redirected from one-time Prop. 98 savings for this purpose. Again this year, the budget proposes to fully fund Stage 3 caseload growth at an increased cost of \$104 million, of which over \$85 million is Prop. 98 money. There are two concerns with the current child care policy. One, the redirection of Prop. 98 money for child care reduces the amount of funds available for other K-14 education programs. Two, by fully funding Stage 3 child care, California is moving towards making this an entitlement program.

## **HIGHER EDUCATION**

### **University of California**

SB 1261 cuts \$200 million from the amount provided for the University of California (UC) in the Budget Act of 2001. In fact, the \$3.2 billion General Fund proposed for 2002-03 is \$80 million less than provided in 2000-01. For the second year in a row, the budget would continue the Governor's abrogation of the 2001 Higher Education Partnership, which had provided for a 5 percent base funding increase in return for improved accountability. SB 1261 provides only a 1.5 percent base

increase (\$47.5 million). Other adjustments include \$77.6 million for enrollment growth of 8,597 students (5 percent), including increased funding for summer enrollment at the Davis campus, and \$4 million for UC Merced startup costs.

#### **University of California Cuts - SB 1261 would make the following cuts to UC:**

- \$50.1 million cut from teacher Professional Development Institutes.
- \$32.1 million cut from research funding, leaving \$288.7 million. The budget also contains language protecting specific projects, such as the \$5.5 million UC Labor Institute.
- \$29 million cut from information technology, instructional equipment, library materials, and deferred maintenance.
- \$26.9 million from various outreach programs, leaving \$32.2 million.
- \$17 million from UC-administered student financial aid.
- \$15.3 million from the Subject Matter Projects, a teacher professional development program. (\$5 million in federal funds are provided for the program through the Department of Education, bringing total funding to \$20.3 million, down from \$35.3 million in 2001-02.)
- \$10 million cut from the K-12 Internet2 project, leaving \$22 million.

#### **California State University**

SB 1261 provides \$2.7 billion General Fund for the California State University (CSU) in 2002-03. This represents an increase of about \$78 million over the Budget Act of 2001. As with UC, the budget would continue the Governor's abrogation of the Higher Education Partnership, providing only a 1.5 percent base increase (\$37.7 million). SB 1261 approves \$16.9 million in additional student fees associated with the Governor's CSU Board of Trustees' recent action to raise non-resident student fees 15 percent. Other adjustments include \$98.7 million for enrollment growth of 15,278 students (5 percent), including increased funding for summer enrollment at the Chico campus.

#### **California State University Cuts - SB 1261 would make the following cuts to CSU:**

- \$43 million from information technology, instructional equipment, library materials, and deferred maintenance.
- \$21 million to convert the Governor's Teaching Fellowships into a loan forgiveness program.
- \$14.5 million from CSU-administered student financial aid.
- \$12.5 million to eliminate the Education Technology Professional Development Program.

#### **California Community Colleges**

The proposed budget for the California Community Colleges represents another shell game. In order to meet the Prop. 98 guarantee, SB 1261 proposes to cut current year spending by \$116 million in unspecified programs, and shift this funding to the budget year, touting this as an increase. **Implementation of the cut will require urgency legislation enacted prior to July 1, 2002.**

**Budget Continues to Underfund Enrollment Growth** - Although student enrollment in community colleges could grow by over 4 percent next year, the budget provides funding for only 3 percent of that growth. The community colleges indicate that, combined with unfunded growth in the current year, the funding deficit could run as high as \$76 million. When aggregated with other proposed program cuts of about \$100 million, course availability and core services for approximately 20,000 students could be severely effected—all this during a time of slow economic development when unemployed individuals typically turn to community colleges to enhance their education and job skills.

**Language to Authorize Carryover of Funds** - Current law requires the community colleges to relinquish unexpended funds to the Prop. 98 Reversion Account. These funds may then be reallocated in the following year for a variety of Prop. 98 programs, including K-12 education and child care. The Senate adopted language that would essentially reserve unexpended community college funds so that they can be used by the community colleges in the following year. Although the language would limit Legislative discretion over Reversion Account funds, it would guarantee that those funds be utilized for higher education.

Select augmentations and reductions to the community colleges are discussed below:

**Augmentations:**

- **Instructional Equipment** - \$34 million increase over the current year for purchase and replacement of computers, laboratory supplies, visual projectors, and other equipment which would aid in classroom instruction.
- **Scheduled Maintenance** - \$32 million increase over the current year for facilities maintenance and repair.

**Reductions:**

- **Matriculation** - \$10 million reduction from student counseling, placement, and transfer services.
- **Technology Infrastructure** - \$20 million reduction from computer purchase/replacement and other information technology upgrades and services.
- **Economic Development Programs** - \$9 million reduction from services that link students to prospective employers.
- **CalWORKs Services** - \$29 million reduction from services to CalWORKs recipients (i.e., English as a Second Language (ESL) courses, vocational training, etc.). The administration proposes to require a 1-to-1 local fund match. The community colleges request flexibility in the type of funding that would be countable towards the match.
- **Student Success Program** - \$10 million reduction from special student services, such as disabled student internship development, English as a Second Language (ESL) tutoring, etc.
- **Teacher Reading/Math Development** - \$5 million reduction from a program that encourages community college students to become teachers by allowing them to tutor school-age children in math and reading.
- **Faculty and Staff Development** - \$3 million reduction from training and continuing education for faculty and staff.

## **OTHER EDUCATION ISSUES**

**California Postsecondary Education Commission** - The Governor's May Revision proposed cutting \$2.8 million General Fund and 40 positions from CPEC, leaving 3 positions to provide direct support to the commission. SB 1261 restores full funding and staffing for CPEC.

**California Student Aid Commission** - The Student Aid Commission administers the Cal Grant and other student aid programs totaling about \$670 million in SB 1261. This funding reflects the following cuts:

- \$10 million from current year Cal Grant Entitlement and Competitive awards, for a total funding level of \$175 million in 2001-02 and \$398 million in 2002-03.
- \$5 million from Cal Grant T awards, which provide aid to students in teacher training programs in return for their commitment to teach in low-performing schools. \$5 million remains for this program.

**California State Library** - SB 1261 provides \$47.7 million for the Public Library Foundation, which provides funding to local libraries. This reduces PLF funding from \$56.9 million in 2000-01.

## HIGHER EDUCATION CAPITAL OUTLAY

SB 1261 authorizes expenditures of \$849.7 million for higher education capital projects from a variety of bond sources, as follows:

- \$151.8 million in General Obligation bonds and \$171.2 million in reappropriated lease revenue bonds for the University of California. \$831,000 for the Hastings College of the Law.
- \$289.9 million in General Obligation bonds for the California State University.
- \$236 million for the California Community Colleges.

### Subcommittee 2 (Resources, Environmental Protection, Judiciary, Transportation, & Energy)

Consultants: Alex Alanis, Dave Harper, Sharon Bishop, Curtiss Cobb

#### *Dollars in Thousands*

<i>Fund</i>	<i>Governor's Budget As Revised</i>	<i>Senate Changes</i>	<i>Senate Totals</i>
<i>General Fund</i>	\$2,940,455	<b>\$-25,673</b>	\$2,914,782
<i>Special Funds</i>	10,209,626	887	10,210,513
<i>Bond Funds</i>	1,614,325	<b>-235,162</b>	1,379,163
<i>Federal Funds</i>	4,833,082	<b>-2,665</b>	4,830,417
<b><i>Total</i></b>	\$19,597,488	<b>\$-262,613</b>	\$19,334,875

## JUDICIARY

**Judiciary / Trial Court Funding** – In the budgets for the Judiciary and Trial Court Funding, SB 1261 is virtually identical to the Governor's proposals contained in the January Budget and May Revision. These proposal include:

- **\$61 million TAX INCREASE** from surcharges on criminal fines and filing fees. Under the proposal, a 20 percent surcharge would be added to criminal penalties and deposited directly into the General Fund (\$45.8 million). Currently, approximately 80 percent of the assessments collected from these criminal fines are related to Vehicle Code violations. In addition, the civil filing fee would increase from \$185 to \$203.50. Other fees that would increase include the change of venue fee, filing fee for motions requiring a hearing, and various certification fees. These fees would generate \$15.2 million which would be deposited into the Trial Court Trust Fund, and a like amount of General Fund would be reduced from trial court operations.
- \$23 million (GF) for on-going courthouse security costs, including increases in the contractual costs of negotiated salary increases and retirement costs for security personnel. These increased costs are related to salary and benefit increases negotiated by local law enforcement agencies that are passed on to the courts and this augmentation will not result in the hiring of additional security personnel.
- A one-time fund shift of \$28.1 million from the Trial Court Improvement Fund to the General Fund.
- A \$59.2 million (GF) unallocated reduction from trial court operations (one-time).

**Department of Justice** – Again, SB 1261 is virtually identical to the Governor’s proposals, including:

- A \$27.6 million (GF) reduction spread across various divisions and programs,
- A \$13.4 million (GF) augmentation to expand the California Anti-Terrorism Information Center. The Administration intends to reimburse the General Fund for these costs from future federal funds allocated to California for security-related purposes.
- A \$800,000 (GF) reduction for the Spousal Abuser Prosecution Program which seeks to help both victims and prosecutors of domestic violence offenses. Through program grants supporting "vertical prosecution," district attorneys and city attorneys are able to develop teams that specialize in the investigation and prosecution of domestic violence offenses.
- In addition to the Governor’s proposals, SB 1261 augments the budget by \$7.2 million from the Special Telephone Solicitor’s Fund in order to fully fund the provisions of SB 771 (Figueroa). SB 771 established a “do not call” list for residential and wireless telephone subscribers who do not want to receive telephone solicitations, and **this augmentation will require the Attorney General to raise fees by approximately \$3.50 on approximately 3 million subscribers.**

**California Highway Patrol** – SB 1261 makes minor changes to the Governor’s proposals, including:

- A \$7.9 million (MVA) reduction to the Governor’s Infrastructure Protection proposal which will reduce the number of proposed helicopter/airplane purchases from 5 to 3, and limits the funding for the proposal to one year in order to reevaluate out year costs of the proposal if the security-related federal funds that are planned to reimburse the MVA do not materialize.
- In addition, SB 1261 adopts the proposal to increase the budget by \$3.1 million (MVA) in order to purchase and install nuclear detection devices at five inspection facilities that are near or on the California border, and for devices to be installed at ports of entry in Long Beach, Los Angeles, and Oakland.

**California Victim Compensation and Government Claims Board** – Due to revised claims payment estimates and other pressures on the Restitution Fund, SB 1261 adopts the Governor’s proposal to withdraw the planned loan of \$20 million from the Restitution Fund to the General Fund.

**Office of Criminal Justice Planning** – As the lead executive branch agency with respect to crime prevention, crime suppression, and criminal justice planning, OCJP’s budget sets the tone for the Governor’s commitment to public safety. SB 1261 includes the following proposals which demonstrate the Governor’s true commitment to public safety:

- A \$5 million (GF) reduction in local assistance funding for the Central Valley’s California Multi-jurisdictional Methamphetamine Enforcement Team (CAL-MMET) Program which provides state resources for investigators and prosecutors specializing in Methamphetamine offenses, as well as support staff, equipment, training and facilities.
- A \$4.2 million (GF) reduction in local assistance for the High Technology Theft Apprehension and Prosecution Program which is designed to address the proliferation of high technology crimes, including crimes in which technology is used as an instrument in committing a crime, assisted in the commission of a crime, or which is the target of a criminal act.



- A \$19.4 million (GF) reduction to every General Fund supported local assistance program, including:
  1. Homeless Youth Project - \$442,000
  2. **Child Sex Abuse Prevention and Training - \$336,000**
  3. **Child Sex Assault Prosecution - \$652,000**
  4. Career Criminal Apprehension and Prosecution - \$3,148,000
  5. Major Narcotics Vendors Prosecution - \$1,321,000
  6. **Vertical Prosecution of Statutory Rape - \$4,181,000**
  7. **Elder Abuse Vertical Prosecution - \$1,000,000**
  8. Vertical Defense of Indigents - \$346,000
  9. California Innocence Protection Program - \$400,000
  10. Suppression of Drug Abuse in Schools - \$769,000
  11. Gang Violence Suppression - \$2,321,000 and
  12. **Rural Crime Prevention - \$1,771,000**

In addition to the Governor's proposals and in an effort to minimize unnecessary duplication and overlap, SB 1261 transfers the responsibility and approximately \$45 million in federal funds for juvenile justice programs now administered by OCJP to the Board of Corrections.

## TRANSPORTATION

Senate Bill 1261 proposes the following loans to the General Fund: 1) \$1.045 billion from the Traffic Congestion Relief Fund (TCRF), 2) \$50 million from the State Highway Account (SHA), and 3) \$6 million from the Aeronautics Account. In addition to the TCRF loan to the General Fund, SB 1261 would loan \$474 million **interest free** from the SHA to the TCRF. The interest free loan would cost the SHA approximately \$43 million. The \$50 million SHA loan to the General Fund (also interest free) is allowed pursuant to Article 19, Section 6, subsection (b) (2) of the California Constitution, which allows this type of loan if General Fund revenues in the May Revision of the current fiscal year is less than the aggregate amount of General Fund revenue in the previous fiscal year. If all of these loans are contained in the Budget Act of 2002, then approximately \$3.6 billion would have been taken from transportation and used for shoring up the budget deficit in the past two fiscal years.

According to the Administration, no projects will be delayed as a consequence of these loans. However, that is open to interpretation. According to the California Transportation Commission, the TCRF refinancing plan (AB 438, 2001) meant a loss of \$1.116 billion in front-loaded capacity in the 2002 State Transportation Improvement Program (STIP). The 2002 STIP will spend only 10 percent of the \$3.84 billion in the first two years of the five-year proposal. This new borrowing proposal would exacerbate an already delayed funding problem.

SB 1261 proposes a \$100 million loan from the Public Transportation Account to the TCRF to pay for public transportation projects. This action relieves the cost pressure to the TCRF caused by loans to the General Fund. The bill also proposes a reduction of \$17.34 million to local transit agencies for operations and other purposes. Of the \$17.34 million, \$5.15 million is from the implementation of a diesel fuel tax exemption for farmers and the remaining \$12.19 million is from a lower diesel fuel revenue forecast.

**Caltrans** - SB 1261 contains an amended version of the Governor's May Revision proposal to reduce \$38 million and 550 position at Caltrans to reflect the reduced workload in the first two years of the back-loaded 2002 STIP. Instead, the bill would cut half that amount from the Caltrans bureaucracy and the remainder would be cut from contracting-out position authority. Also, SB 1261 contains a proposal to establish a revolving loan program to provide flexible, short-term financing to public entities and public/private partnerships for the delivery of transportation projects. The loan program will be capitalized with an initial appropriation of \$3 million (federal funds).

Pursuant to SB 1261, \$77.4 million (SHA) would be spent over the next three years to develop an information technology integration plan. The project includes: a financial management plan, construction management system, land management system, and contract payment system. Although it is never a bad idea to streamline the financial and management system at Caltrans, full funding for this project is premature. Of the \$77.4 million, \$2.4 million will be spent on developing the project and the remaining \$75 million will be spent on the four projects listed above. The \$2.4 million development project will not be completed until August 2003, after the end of the 2002-03 fiscal year. Funds for the four projects should wait until the Legislature has had an opportunity to review the progress of the program during the 2000-03 budget cycle before \$75 million is spent on a new computer system.

**High Speed Rail Authority** - SB 1261 proposes to spend \$7 million (SHA) to complete the preliminary environmental impact report and statement on a high-speed rail project that will ultimately cost the state over \$30 billion General Fund and will do nothing to relieve daily commuter gridlock.

**Department of Motor Vehicles** - SB 1261 contains several **fee increases** to shore up the Motor Vehicle Account (MVA), which will experience several cost pressures. For example, the CHP's retirement plan that had been fully funded with investment earnings has experienced a drop in revenues due to the decline in the stock market. A backfill of \$107 million has been proposed to support the drop in revenues. Also, last year's budget contained an MVA appropriation of \$20 million to support the ARB's zero emissions program. The fee increases are as follows:

- \$25 million from increasing late registration fees in 2002-03, which will increase to \$50 million in 2003-04.
- \$2 million from increasing filing fees on appealing DUI suspensions in 2002-03, which is expected to increase to \$4 million in 2003-04.
- \$40 million from increasing the cost to insurers and others that request driving record information.
- \$4 million in 2003-04 from the imposition of a \$5 fee to retake a driving license test.
- An increase from \$2 to \$4 per record for information provided to insurers and others who request driver's license and vehicle registration information.

**These fees amount to an indirect tax of \$76 million in 2002-03 and \$98 million in 2003-04.**

## **RESOURCES AND ENVIRONMENTAL PROTECTION**

**Proposition 40** - SB 1261 proposes to set aside \$258.5 million from the Governor's \$803.5 million Proposition 40 expenditure proposal in the budget year. The set-asides would fund bills pending in the Legislature that establish Proposition 40 programs. For example, \$107 million was set aside to fund a bill that would create a program and set eligibility requirements for a cultural and historical resources program in the Department of Parks and Recreation. The bill also contains an additional \$237.9 million in Proposition 40 expenditures and language limiting administrative costs to no more than 5 percent for all projects.

**Conservation Corps** - SB 1261 would reduce \$7.2 million General Fund from the Training and Work Program. Total corps memberships would be reduced from 2,150 to 1,725, however, no corps members will be released from the program early. The proposal expects the reduction to be accomplished through normal attrition.

**Department of Forestry and Fire Protection (CDF)** - SB 1261 cuts \$5.8 million from CDF's budget for timber harvest plan reviews. The cut in the budget would be recouped from new fees on timber operators to cover the costs incurred by state agencies in their review and enforcement of timber harvest plans. The new fees would be established by a **majority-vote trailer bill**, which calls into

question whether a bill that establishes a yield fee on trees is not a tax measure requiring a two-thirds vote. The trailer bill would establish the following:

- A 4 percent timber yield fee on harvested timber for the 2002-03 and 2003-04 fiscal years.
- The creation of the Forest Practice Regulatory Fund, and deposits all fee revenue in the account for appropriation by the Legislature.
- Beginning in 2004-05, the board will establish a fee amount to cover the costs of reviewing and enforcing timber harvest plans.
- Requires the Board of Equalization to collect the timber yield fees.

SB 1261 proposes to increase the costs to local governments by charging them \$20 million for firefighting activities on State Responsibility Areas (SRA's).

SB 1261 contains \$55 million General Fund for emergency fire suppression, which is much less than the \$139 million annual average the Department of Forestry projected from 1999-2000 through 2001-2002. The bill also contains \$2 million General Fund to continue CDF's effort to combat Sudden Oak Death Syndrome.

The Board of Forestry's budget, sans funding for salaries, was deleted in SB 1261.

**Wildlife Conservation Board** - SB 1261 proposes to cut \$14 million General Fund scheduled for acquisition of sensitive habitat related to the University of Merced Grasslands Project. This reduction will be offset by a Proposition 40 allocation.

**CALFED** - SB 1261 proposes to reduce \$12.9 million General Fund for various CALFED programs, including Water Use Efficiency, Levees, Watershed, Drinking Water Quality, and Science Programs. However, these reductions will be offset by an \$11 million Proposition 13 (2000 Water Bond) allocation.

**Air Resources Board** - SB 1261 contains a proposal to remove the existing \$3 million cap on statewide stationary source pollution fee collections, and require the ARB to develop regulations. The regulations would include cost of living adjustments based on the consumer price index (CPI). Of the entire stationary source program budget, only six percent (\$3 million) is from fees levied on stationary source polluters. Less than 250 facilities (out of approximately 20,000 stationary sources) pay the stationary source fee. However, one needs to question the wisdom of expanding the tax base to include several additional businesses during an economic slowdown.

**Department of Pesticide Regulation** - SB 1261 proposes a reduction of \$3.4 million General Fund and 23 positions from food tolerance assessments, total maximum daily load, toxic air contaminant standards, and pest management grant programs. The bill also restored \$500,000 for local assistance to County Agriculture Commissioners.

**State Water Resources Control Board** - SB 1261 reduces \$22.1 million from the Waste Discharge Permit Fund (WDPF) and permanently transfers those funds to the General Fund. To accomplish the fund shift, waste discharge fee trailer bill language would be introduced. The trailer bill would do the following:

- Eliminate the existing \$10,000 cap and establish a new cap of \$35,000.
- Eliminate the one-permit, one-fee rule (the co-permittee exemption).
- Eliminate the exemption for confined feeding operations (dairies).

SB 1261 proposes a reduction of \$6.2 million General Fund in stormwater contracts related to non-filer search activities.

**Department of Toxic Substance Control** - SB 1261 proposes a \$15 million loan from the Hazardous Waste Control Account (HWCA) to the General Fund, which is scheduled to be paid back by June 30, 2006. The Governor's January 10 Budget projected a \$4.7 million fund balance in the HWCA, which is \$10.3 million less than what is needed for this loan. The May Revision anticipates

an increase in revenues coming into the HWCA. If these revenues do not materialize, the Administration might have to cut funding for state operations for DTSC, which receives 86 percent of the funds in this account.

**Air Resources Board** - SB 1261 proposes a \$6.8 million MVA reversion from unencumbered funds from the zero emissions vehicle program and uses \$5 million for local air pollution district subventions and \$1.8 million for health and air quality programs. The Governor's Budget, among other cuts, reduced funding for these programs. However, because of the condition of the General Fund and MVA, SB 1261 reverts unspent funds for these programs.

**Department of Fish and Game** - SB 1261 would reduce \$2.1 million from DFG's operational budget and back-fill it with \$2.1 million from the Environmental License Plate Fund.

**Department of Conservation** - SB 1261 proposes a loan of \$218 million from the Beverage Container Recycling Fund (BCRF) to the General Fund. This loan would leave a fund balance of \$25 million. The BCRF receives its revenue from surcharges on bottles and fees paid by manufacturers of bottles. This action uses revenue generated from special taxes for general purposes.

## **ENERGY**

### **Public Utilities Commission:**

- \$5.785 million from the Public Utilities Reimbursement Account (PURA) for the PUC to contract for financial and legal consultants to assist with PG&E bankruptcy and associated travel.
- \$2.1 million (PURA) for 19.5 new positions for power plant inspections associated with SB 39xx.
- \$1.52 million (PURA) for 8 new paralegal positions for litigation support (\$520,000) and one bond counsel position (\$1 million) for bond support. This action is not part of the Governor's proposed budget.
- Adjusts lease revenue payments to save \$2.391 million in budget year (\$2.057 million PURA, \$262,000 Transportation Reimbursement Account, \$72,000 Transportation Rate Fund).
- Denies \$11.76 million (PURA) of Governor's proposed spending for 21 new positions from various programs and grants to implement AB 140.
- Deletes \$93,000 (PURA) and 1 staff attorney position associated with defunct Green Team.

### **Energy Resources Conservation and Development Commission:**

- Deletes \$5.454 million General Fund for power plant siting. Increases Energy Resource Program Account (ERPA) surcharge on ratepayers sufficient to replace General Fund Revenue (currently at \$.0002 per kilowatt hour) and authorizes the commission to raise the ERPA rate annually to fund their programs up to \$.0003 per kilowatt hour.
- Rejects Governor's proposal to impose \$25,000 fee on power plant licenses (budgeted at \$250,000).
- Reduces by \$566,000 the Geothermal Resources Development Account for Geothermal grants.

### **Electricity Oversight Board:**

- Deletes \$730,000 General Fund and positions associated with Generation Maintenance Program.
- Deletes six vacant positions (\$399,000 Public Utilities Reimbursement Account).
- Decreases by \$777,000 (Public Utilities Reimbursement Account) Governor's proposed OE&E budget to keep at current year spending levels.

### California Consumer Power Conservation Financing Authority:

- Schedules \$1 million General Fund loan repayment in budget year.
- Decreases by \$1.096 million General Fund Governor's proposed budget to keep at current year funding.

### Subcommittee 3 (Health, Human Services, Labor & Veterans' Affairs)

Consultants: Sharon Bishop, Therese Tran

#### *Dollars in Thousands*

<i><b>Fund</b></i>	<i><b>Governor's Budget As Revised</b></i>	<i><b>Senate Changes</b></i>	<i><b>Senate Totals</b></i>
<i><b>General Fund</b></i>	\$21,200,982	967,602	\$22,168,584
<i><b>Special Funds</b></i>	1,466,974	5,155	1,472,129
<i><b>Bond Funds</b></i>	1,901	0	1,901
<i><b>Federal Funds</b></i>	31,525,210	821,525	32,346,735
<i><b>Total</b></i>	\$54,195,067	1,794,282	\$55,989,349

## HEALTH AND HUMAN SERVICES OVERVIEW

Despite a rapid decline in welfare caseload since implementation of welfare reform in 1998, Governor Davis has grown General Fund spending in this area by approximately \$5 billion (30 percent) since the beginning of his administration, from \$16 billion to \$21 billion, primarily due to expansions in subsidized health care. Now, faced with massive deficits resulting from spending growth, Governor Davis proposes to balance his health and human services budget by shifting a significant amount of these costs to local governments; penalizing medical providers and thus sacrificing access to health care; and delaying implementation of new expansions. His budget reflects a slight decrease of \$1.2 billion in this area.

In contrast, the Senate Subcommittee has ***augmented General Fund spending by \$968 million over the Governor's revised budget.*** These increases are primarily in the health services area and reflect restoration of various cuts proposed by the Governor, in programs such as Medi-Cal, County Administration, and SSI/SSP. These, and other select topics, are discussed below.

## HEALTH

**Tobacco Securitization** - The budget proposes to securitize \$4.5 billion of the state share of the Master Tobacco Settlement Agreement. California is slated to receive \$25 billion over a 25-year period with a like amount going to local governments. The state share is approximately \$475 million annually, and the Governor's securitization plan will consume virtually 100 percent of these revenues for the next 22 years, leaving nothing to be applied toward rising health care costs. The budget for fiscal year 2002-03 spends \$533 million (Revenues and Prior-Year Carryover) in Tobacco Settlement Funds, and it is likely that the Administration will backfill with General Fund dollars to maintain the following programs in the future:

- \$229.9 million Healthy Families Program
- \$4.3 million Access for Infants and Mothers (AIM)
- \$206.1 million Medi-Cal Section 1931 (b) expansion
- \$10.6 million Medi-Cal Breast and Cervical Cancer Treatment expansion
- \$11.1 million State-Only Breast and Cervical Cancer Treatment
- \$50.7 million Child Health and Disability Prevention (CHDP) Program
- \$20 million Prostate Cancer Treatment

## **Medi-Cal**

**Cuts Provider Reimbursement Rates** - The budget cuts Medi-Cal provider reimbursement rates by \$249.1 million (\$124.6 million General Fund). Republicans had fought hard for the minimal rate increases of the past two years in an effort to improve access to care for eligible recipients, and these cuts take us back to the starting point of previous negotiations.

**Rejects Governor's Proposed Elimination of Certain Optional Services** - The Governor had proposed cuts of \$526 million (\$263 million General Fund) and the elimination of the following optional Medi-Cal benefits: chiropractic, podiatry, independent rehabilitation centers, acupuncture, occupational therapy, psychology, medical supplies, and adult dental services. SB 1261 includes full funding for these optional services.

**Extorts Additional Rebates from Drug Manufacturers and Suppliers of Medical Goods** - Budget Trailer Bill Language was adopted to direct the Department of Health Services "... to negotiate as aggressively as necessary to achieve savings ..." of \$20 million (\$10 million General Fund) related to pharmaceutical contracting. The budget was reduced to reflect these projected savings.

**New Rebates Required for AIDS and Cancer Drugs** - Budget Trailer Bill Language was adopted to require all pharmaceutical manufacturers to pay a supplemental state rebate for any drug products added to the Medi-Cal formulary. Previously, AIDS and Cancer drugs were exempt and were automatically added to this formulary. This language includes a three-year sunset provision and specifies that rebate contracts must be in place no later than February 1, 2003 or the Department of Health Services can take other utilization control actions.

**Savings Assumed from Contracting for Durable Medical Equipment and Lab Services** - The budget assumes that the Department of Health Services can save \$13.2 million (\$6.6 million General Fund) if it competitively contracts for certain supplies and services.

**Rejects Governor's Proposal to Exempt Certain Drugs from the Co-Payment Requirement** - By rejecting this proposal, the budget is increased by \$20 million (\$10 million General Fund).

**Increases the DSH "Rake-Off"** - The budget increases, from \$29.8 million to \$116 million, the Disproportionate Share Hospital (DSH) administrative fee that is "raked-off" by the Department of Health Services. This is a direct reduction of funding to private and public hospitals.

**Rejects Governor's Proposed Cut of County Administration Funds** - SB 1261 includes full funding for Medi-Cal county administrative costs. The Governor had proposed a 20-percent reduction, which would have resulted in savings of \$175.9 million (\$88 million General Fund).

**Rejects Governor's Proposed Mandate for a County Share-of-Cost for EPSDT** - The Governor had proposed that counties provide a 10-percent match to reduce the state's share of the cost of growth in the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. SB 1261 rejects this proposal, but requires the increased application of managed care principles in order to achieve \$30 million in General Fund savings while ensuring access to services for all eligible Medi-Cal recipients.

**Accelerated Enrollment** - When families apply for health coverage at the Single Point-of-Entry, those persons being referred to Medi-Cal will be provided with immediate temporary coverage under the Medi-Cal fee-for-service system pending eligibility determination. The budget includes \$10.8 million (\$5.4 million General Fund) to cover two months of services provided to persons who otherwise would not have been eligible.

**Eliminates the Asset Test** - The budget assumes \$8.5 million (\$4.25 million General Fund) in administrative cost savings from eliminating the asset test. Although some administrative savings will result, any increased costs that result from higher caseloads have not been adequately budgeted.

**Supplemental Wage Rate Adjustment** - The budget includes \$42 million (\$21 million General Fund) to provide increased funding for providers that have a collective bargaining agreement or contract to increase salaries, wages, or benefits for certain classifications of staff.

**Rejects Governor's Proposal to Impose Co-Payments on Medi-Cal Recipients** - The Governor had proposed to charge co-payments for various Medi-Cal services. SB 1261 rejects this proposal, which increases the budget by \$61.2 million (\$30.6 million General Fund).

**Rejects Governor's Proposal to Defer Expansion of the Medi-Cal Program** - The Governor had proposed rescinding the planned expansion of the Section 1931 (b) Medi-Cal program to include applicants earning up to 100 percent of the federal poverty level. SB 1261 fully funds this expansion, at a cost of \$184.2 million (\$92.1 million General Fund).

**Rejects Governor's Proposal to Reinstate the Quarterly Status Report** - Last year, the quarterly status report requirement was eliminated, which effectively provided for 12 months of continuous eligibility. SB 1261 rejects the Governor's proposal to reinstate the report, which will result in more individuals retaining eligibility for the Medi-Cal Program. As a result, the budget has been increased by \$310.8 million (\$155.4 million General Fund).

**Temporarily Defers "Express Lane" Eligibility** - Budget Trailer Bill Language was adopted to allow the release of school lunch information to the Medi-Cal Program for administrative purposes and to defer implementation of Express Lane Eligibility until July 2003. The Governor had wanted the program delayed until July 2005. Budget savings (budget year only) will be \$24.2 million (\$12.1 million General Fund).

### **Public Health**

**Response to Bioterrorist Threats** - The budget provides \$25.4 million in increased federal funds to the Department of Health Services to add 71 positions to staff the new Emergency Preparedness Office.

**Augments the AIDS Drug Assistance Program (ADAP)** - The budget reflects increased federal funds of \$6 million and new rebates from drug manufacturers of \$6.2 million. These additional funds are used to offset \$10.9 million General Fund, for a net program increase of \$1.3 million.

**Increases Fees for the Childhood Lead Poisoning Prevention Program** - Manufacturers of lead products will be assessed an additional \$7.2 million to pay for increased state and local oversight and enforcement activities.

**Child Health and Disability Prevention (CHDP) Program Restored** - The budget includes funding to restore the baseline CHDP Program and to implement a new "CHDP Gateway" into the Healthy Families and Medi-Cal programs. The baseline budget is \$103.5 million (\$92.6 million General Fund/Tobacco Settlement Fund and \$10.9 million other various funds). In January, the Governor proposed eliminating this program because the age and income limits for eligibility are virtually the same as for Healthy Families and Medi-Cal. The primary exception is that CHDP provides services to undocumented immigrant children. The budget also includes \$2.7 million (\$836,000 General Fund) to develop an internet pre-enrollment application, and pre-enrolled children will be immediately eligible for a CHDP health assessment and presumptively eligible for up to two months of comprehensive medical care provided through either Medi-Cal or the Healthy Families Program. The budget includes an additional increase of \$4.4 million (\$2.1 million General Fund) to provide the two months of

comprehensive coverage and full-scope services for some children receiving Medi-Cal services through the “Gateway” process. The CHDP periodicity schedule has been revised to be consistent with that of the American Academy of Pediatricians.

**Reduced Funding for Cancer Research** - The budget includes \$12.5 million General Fund to continue the cancer research program, previously funded at \$25 million. The budget assumes the balance of funding will come from private sources. Budget Trailer Bill Language was also adopted to allow multi-year research contracts and to limit the University of California’s (UC’s) administrative costs (federal indirect overhead) to 25 percent. UC does most of this research.

### **Proposition 99 (Tobacco Tax)**

**Revenue Decline** - Due to a projected decline in Proposition 99 resources, the budget proposes the following cuts:

- \$23 million from the Media Campaign;
- \$3.5 million from the Breast Cancer Early Detection Program;
- \$4.8 million from the County Medical Services Program; and
- Pro-rated reductions in Cancer Control programs, County Health Services programs, Comprehensive Perinatal Outreach, and Children’s Hospitals.

### **Healthy Families Program**

**Delayed the Expansion to Parents, But Implemented Other Pieces of the Waiver** - The parental expansion has been deferred until July 1, 2003. The parental expansion proposal, as originally crafted, provided for several other “expansions” that would only be implemented if the federal waiver for parents was approved and implemented. Trailer Bill Language was adopted to allow implementation of these further expansions even though the parental expansion is being delayed. These expansions include the following:

- **Two-Month Bridge** – continues health coverage under the Healthy Families Program benefits package, but without premiums and co-payments, for two months for subscribers who lose Healthy Families Program eligibility because they are likely to become Medi-Cal eligible;
- **Electronic Funds Transfer Discount** – families who pay their Healthy Families Program monthly premiums by electronic funds transfer will receive a 25-percent discount; and
- **Sponsorship Payments** – allows sponsors to cover the costs of a family’s premiums for any 12 months, as opposed to the current restriction that such payments can only apply to a subscriber’s first 12 months of participation.

**Program Costs are Escalating** - The average monthly rate for health, dental, and vision insurance coverage has increased by 4.6 percent, to an average of \$88.72 per child per month. This rate increase will cost \$27.9 million (\$10.7 million General Fund and \$19 million federal funds).

**Restored Rural Demonstration Projects** - The budget includes \$4.6 million (\$1 million General Fund; \$683,000 Tobacco Settlement Funds; and \$2.9 million federal funds) to restore partial funding cut by the Administration for rural demonstration projects. For the past three fiscal years, the annual appropriation has been \$6 million (\$2 million General Fund). Funds have been used to extend community clinic hours, expand telemedicine applications, provide bilingual specialty health care services, provide mobile medical and dental services, provide health education and nutrition counseling, and for some rate enhancements.



**Single Point-of-Entry Modifications for “CHDP Gateway”** - The budget includes an increase of \$552,000 (\$275,000 General Fund) to forward Single Point-of-Entry applications to County Welfare Departments and to make various systems modifications.

### **Hospital Bioterrorism**

The Emergency Supplemental Appropriations for Recovery and Response to Terrorist Attacks on the U.S. Act (Public Law 107-117 of 2002) will provide California with about \$100 million in increased federal funds to address both local and state concerns regarding the threat of bioterrorism. Funds are provided as follows:

- \$60.8 million from the federal Centers for Disease Control (CDC) to the State Department of Health Services (DHS);
- \$24.6 million from the CDC to Los Angeles County, upon federal approval of the County's application;
- \$10 million from the federal Health Resources and Services Administration (HRSA) to the DHS. These funds will be passed through to the Emergency Medical Services Authority to enhance emergency medical systems;
- \$3.7 million from HRSA to Los Angeles County; and
- \$2.2 million from the federal Department of Health and Human Services (DHHS) to certain metropolitan areas.

### **Managed Health Care**

Although the Department of Managed Health Care is entirely funded with Special Funds, the budget includes significant increases to cover the costs of its activities and programs. Some of the increases include: \$500,000 to expand HMO Quality Report Card from the Office of Patient Advocate; \$234,000 and 4 positions to increase financial examinations of specialized plans; \$210,000 and 3 positions for the Financial Solvency Standards Board; \$850,000 and 14 positions for the HMO Call/Help Center; \$447,000 and 7 positions for the Office of Enforcement.

### **Developmental Services**

**Lack of Federal Certification Requires a General Fund “Backfill”** - SB 1261 includes an increase of \$15.3 million General Fund to backfill for a loss of federal certification at the Porterville and Canyon Springs developmental centers.

**Higher Health Benefit Costs for State Janitors** - SB 1261 includes an increase of \$8.8 million (\$5 million General Fund) to cover the higher costs of janitorial health benefits.

**Budget Increase for Autism** - SB 1261 includes an increase of \$17.2 million for this program.

**Rejects Governor’s Proposal for Statewide Purchase of Services Standards** - The Governor had assumed \$52 million in savings if Regional Centers were required to follow statewide Purchase of Services standards. SB 1261 rejects this proposal, but does adopt a \$52 million unallocated cut to Regional Center services.

### **Mental Health**

**Rejected Most of Governor’s Proposed Cuts to Adult and Children’s Systems of Care** - The Governor had proposed eliminating these programs for a total savings of \$42.6 million. SB 1261 restores \$30 million General Fund for the Children’s System of Care and restores \$2 million General Fund for the Adult Systems of Care, with \$1 million going to each Los Angeles and Stanislaus Counties.

**Reduces Funding for the Integrated Services for Homeless Adults Program** - SB 1261 cuts funding for this program by \$10 million General Fund, as proposed by the Governor.

**Counties Held Harmless for AB 3632 Audits** - Budget Trailer Bill Language was adopted to hold the counties harmless from past State Controller audits that revealed overpayments to counties under the AB 3632 Program. Overpayments may total as much as \$130 million.

### **Local Mandate Funding**

**Cuts to Local Government** - The budget reduces the appropriation for mandated programs by \$7.7 million General Fund for the Department of Health Services. This affects various Sudden Infant Death Syndrome (SIDS) programs, Pacific Beach Safety, AIDS search warrants and inmate testing, perinatal services for alcohol and drug programs, and Medi-Cal beneficiary death notices.

Another reduction of \$492,000 was taken in the Department of Developmental Services that will affect judicial proceedings, attorney fees, representation, and conservatorships.

The majority of reductions proposed by the Governor to state-mandated local programs in the Mental Health area are rejected in SB 1261.

## **HUMAN SERVICES**

**Budget Raids County Law Enforcement Money to Fund Drug Treatment** - Currently, counties receive State and federal funding from the sale or confiscation of assets seized from criminal activities. These proceeds, known as Asset Forfeiture Funds, are used by the counties for a variety of purposes, including law enforcement support and equipment. The Senate adopted trailer bill language that would reduce the State's allocation of Asset Forfeiture Funds to local law enforcement agencies from 65 percent to 45 percent, and require counties to give 15 percent of their federal allocation to the State General Fund. These funds would then be redirected for drug treatment programs. Essentially, the budget proposes to cut local law enforcement funding from this revenue source by a total of 35 percent, or approximately \$9.4 million.

**State "Borrows" \$297 Million from County CalWORKs Performance Incentives** - Under welfare reform, it was agreed that the State would reward the counties for reducing welfare costs as families leave public aid. Counties use these fiscal incentive funds for a variety of purposes, including education improvements, public safety enhancements, as well as other social safety net programs. In January, the Governor took back \$169 million to fund welfare shortfalls. In the May Revision, he proposed to take another \$128 million, for a total of \$297 million. The Senate adopted trailer language requiring that these "borrowed" funds be paid back to the counties, but does not specify how or when.

**Counties Share the Cost of the State's Failure to Automate Child Support Collections** - Federal guidelines require that California implement a statewide system to automate the collection and distribution of child support payments. To date, no system is in place and the most optimistic projections are that California will begin its first pilot in the year 2005. Meanwhile, California will be faced with federal penalties every year until the State comes into compliance. In fiscal year 2001-02 alone, the State General Fund will pay \$158 million in federal penalties. In January 2002, the budget assumed that the federal government would waive next year's penalty of \$181 million. The May Revision now assumes that penalties will be reduced to \$90 million. However, there has been no indication of a penalty reduction from the federal government. Furthermore, the Governor will require the counties to pay half of the State's penalty, or about \$45 million. The State will likely incur penalties next year as well. It is unclear whether these penalties, too, will be passed on to the counties.

**Counties Bear the Lion-Share of Federal Food Stamp Penalties** - The U.S. Department of Agriculture has fined California \$116 million for errors in the overpayment and underpayment of food stamp benefits. In 2001, California's error rate was 17.4 percent, compared with the national average of 8.7 percent. The Davis administration indicates that it will continue negotiations with the federal government for penalty relief. However, if unsuccessful, the budget will pass 90 percent of the penalty to the counties totaling \$104 million, with the State picking up 10 percent, or \$12 million. The budget includes new methodologies designed to curtail penalties. However, it's unclear whether this will be successful. And, if California is sanctioned again the following year, how much will be passed on to the counties?

**Budget Weakens County Welfare Fraud Detection/Prevention Efforts** - Currently, counties receive incentive funds from both the State and the federal government to enhance their welfare fraud detection and prevention efforts. The budget proposes to cut \$5.1 million General Fund from this program. At this time, it is unclear how much this reduction will undercut fraud prevention efforts. However, any increases in welfare costs resulting from undetected fraud would be borne by local, state and federal governments.

**Senate Restores Governor's Proposed Cuts to County Administration** - The counties receive both State and federal funds to administer a variety of social services programs. The Governor proposed to cut county administration funding by \$153 million in the programs identified below. However, the Senate restored all of his proposed cuts. Without prejudice to the potential merits of such an action, this restoration will increase the General Fund deficit by \$153 million.

- \$72 million -- administration of California's welfare program (CalWORKs)
- \$49 million -- administration of Foster Care, Food Stamps, and In-Home Supportive Services
- \$32 million -- inflation costs to counties for administration of various programs

**Businesses to be Saddled with Annual Minimum Wage Increases** - The Senate took action to eliminate the Industrial Welfare Commission, which is responsible for reviewing and adjusting the State minimum wage, as necessary. The Senate then adopted trailer bill language that would require an annual increase to the State's minimum wage. When the Commission conducted its review in 2000, it increased the minimum wage to \$6.25 effective January 1, 2001, and \$6.75 effective January 1, 2002. However, prior to these increases, the minimum wage had not been adjusted for almost three years and had remained at \$5.75 since March 1, 1998. By mandating an annual wage increase, California's businesses would be strapped with escalating costs even in years of economic depression. This latest minimum wage increase in 2002 is estimated to cost employers over \$600 million a year.

**Budget Favors Expansion of Bureaucracy over Mitigating Unemployment Insurance Tax Increase** - Earlier this year, California received a one-time augmentation of \$937 million from the federal government for unemployment programs. The Employment Development Department estimates that, if this entire federal distribution were to be utilized for unemployment benefits, the unemployment tax hike caused by enactment of SB 40 (Alarcon) could potentially be delayed by one year. Even though the State will be faced with the largest unemployment tax increase in a decade, the budget proposes to spend more money on administration rather than bank it and ease the tax burden on employers. Specifically, the budget proposes to redirect \$176 million from benefit payments to administration for replacement of a database system (\$100 million); changing the alternate base period (\$20 million); and expanding various other unemployment administration functions.

**Another Raid on Employment Training Funds** - Last year, Governor Davis siphoned \$61.7 million from employer taxes to fund other employment services under the welfare programs. These taxes were originally intended to help employers provide retraining to their workers who are unemployed. To the extent that these workers are able to obtain other employment sooner, this would reduce the costs of unemployment insurance for these employers. An independent study released in January of

this year indicated that approximately 97 percent of re-trained workers in this program returned to work in a year or less. Despite this high rate of re-employment, the budget proposes to pilfer another \$30 million from the program, and use the money to provide employment services for welfare recipients.

**Budget Increases Labor Bureaucracy** - The budget proposes to establish the California Labor and Workforce Development Agency from a redirection of \$1.8 million and 17 positions from other agencies such as the Department of Industrial Relations, the Employment Development Department and the California Workforce Investment Board. It is intended that the new agency would consolidate functions that are currently segregated among various departments. It is unclear whether this consolidation will streamline operations or add yet more bureaucratic procedures. However, creation of new agencies, even those initially funded from redirections, tend to subsequently result in increased spending. Examples include:

- *Department of Managed Health Care* -- \$33 million total budget
- *Inspector General for the Youth and Adult Correctional Agency* -- \$10 million total budget
- *Department of Child Support Services* -- \$995 million total budget
- *Office of the Inspector General for Veterans* -- \$0.5 million total budget

**Elimination of Funding for Faith-Based Employment Services** - The budget proposes to eliminate funding for employment services provided by faith-based organizations. This program was initially authorized in fiscal year 2000-01 with a \$5 million appropriation. In 2001-02, the appropriation was reduced to \$4 million. Senate Republicans fought to initiate this and other faith-based programs in the 2000 budget. SB 1261 would eliminate all funding next year.

**Cash Assistance for Legal Immigrants** - As part of federal welfare reform, food stamp funding was eliminated for legal immigrants who entered the country after August 1996 and who are not naturalized citizens. In response, California implemented its own food stamp program, the California Food Assistance Program (CFAP), and funded it entirely with state General Fund dollars. Due to eligibility expansion and other increases, spending in this area has grown by 35 percent, or \$24 million since 1999, from \$68.7 million to almost to \$93 million.

**Elimination of Emergency Cash Assistance for Elderly and Disabled** - The Special Circumstances program provides emergency cash to low-income elderly and disabled individuals to assist them with a variety of special non-recurring needs such as replacement of household appliances (i.e., refrigerator) and necessary housing repairs (i.e., leaky roof). The program is proposed for elimination because administration costs far exceed the assistance payments. This action reduced General Fund expenditures by \$4.5 million.

**Select Cuts to Senior Services in the Department of Aging** - The Department of Aging provides a variety of services to elderly Californians. Some of these cuts are discussed below:

- **Senior Wellness and Prevention Media Campaign** \$387,000 General Fund reduction -- This program was initiated in 2000-01, with \$1 million in one-time funding as part of the Governor's Aging With Dignity Initiative, to provide information to aging Californians about physical fitness, nutrition and other health-related topics. Subsequent legislation doubled the budget to \$2 million and renamed the program to StayWell. This reduction was adopted because of slower than anticipated expenditure of funds due to delayed program implementation.
- **Senior Housing Information and Support Center** \$109,000 General Fund reduction -- This program, also part of the Aging With Dignity Initiative, was intended to provide information to seniors regarding housing options and home modification alternatives. Many aspects of this program are duplicative of other existing programs.

**Senate Restores COLA for SSI/SSP, Increasing General Fund Costs by \$76.8 Million** - The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides cash grants to low-income elderly and disabled persons. Recipients typically receive both a State and a federal cost-of-living adjustment (COLA) annually. SB 1261 proposes to fully restore the proposed cut to the federal COLA of \$54.3 million and to provide a State COLA for one month at a cost of \$22.5 million. This action would increase the General Fund deficit by \$76.8 million.

**Suspension of Rate Adjustment for Work Activity Programs** - The Department of Rehabilitation funds Work Activity Programs (WAP) which provide work experience and work-related services to persons with developmental disabilities. The WAP is operated by a network of providers who receive payment from the State based on an established reimbursement rate. Current law requires that these rates be adjusted every two years to reflect the provider's cost of providing services. Under current law, WAP rates would be adjusted in fiscal year 2002-03 to reflect the higher costs of service delivery. The budget proposes to suspend the rate adjustment, resulting in cost avoidance of \$4.9 million (\$3.8 million General Fund). The WAP providers and disabled persons advocacy groups have lobbied extensively for the rate adjustment. However, the budget does provide several million dollars in augmentations to fund caseload growth in the program. This reduction was adopted because of the constraints on the General Fund and not because of the efficacy of the program.

**Restoration of \$8 Million for Drug Courts** - The Governor's budget proposed to cut \$8 million in spending for drug courts. This program diverts adult and juvenile drug offenders into treatment programs and is scheduled to sunset at the end of fiscal year 2002-03. The Senate denied the Governor's proposal to cut the program and fully restored funding.

#### **Subcommittee 4 (Legislative, Executive, Public Safety, & General Government)**

Consultants: Tom Sheehy, Dave Harper

##### *Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Senate Changes</b>	<b>Senate Totals</b>
<b>General Fund</b>	\$13,474,389	\$3,230	\$13,477,619
<b>Special Funds</b>	6,967,019	-14,987	6,952,032
<b>Bond Funds</b>	50,159	-2,333	47,826
<b>Federal Funds</b>	1,449,108	0	\$1,449,108
<b>Total</b>	\$21,940,675	<b>\$-14,090</b>	\$21,926,585

## **PUBLIC SAFETY**

**Office of the Inspector General** – SB 1261 includes a reduction of \$1.366 million (GF) and 10 positions related to vacant positions and workload adjustments.

**Youthful Offender Parole Board** – The YOPB is responsible for determining length of stay and conditions of parole for wards committed to the California Youth Authority. SB 1793 (Burton) proposes to eliminate the YOPB and transfer its responsibility to the committing court, using a process modeled after that used for group home and probation camp placements. Consistent with this transfer of responsibilities, SB 1261 includes a reduction of approximately \$1.6 million (GF) to reflect half-year funding for the YOPB.

**Board of Prison Terms** – In addition to approximately \$1.8 million (GF) of proposed Administration reductions, SB 1261 includes the following adjustments:

- A \$125,000 (GF) augmentation to expand the Foreign Prisoner Transfer program, with a corresponding decrease in the Department of Corrections.
- A reduction of approximately \$15 million (GF) to eliminate 6 months of funding with budget bill language to restore the funding if the Board completes its backlog of Lifer Hearings and Inmate Parolee Appeals.

**Board of Corrections** – SB 1261 reflects the following:

- Consistent with the action to split the \$121.3 million between the COPS / Juvenile Justice programs, SB 1261 includes a reduction of \$137,500 to the Board's budget for the administration of the Juvenile Justice programs. The Administration had proposed a reduction of \$275,000 and the elimination of funding for the Juvenile Justice programs.
- A \$12.3 million (GF) reduction for the Challenge Grant II program, to reflect elimination of fourth-year grant funding.
- A \$45 million (FF) augmentation to reflect the transfer of the juvenile justice programs from OCJP to the Board.
- In addition, SB 1261 includes \$17.3 million (GF) to reflect the rejection of the Governor's proposal to eliminate third-year funding for the Mentally Ill Offender Crime Reduction Grant program.

**Department of the Youth Authority** – SB 1261 reflects the following:

- A \$3.1 million (GF) reduction primarily from operating expense and equipment, which is spread across the Department's institution, parole, education, and administration programs.
- A \$725,000 (GF) augmentation to enhance management oversight and to monitor staff compliance of policies and procedures.
- A \$1 million (GF) reduction to force the Department to develop a Consolidation Plan that includes closing one northern and one southern facility in time for the Budget Conference Committee to review.
- An \$1.01 million (GF) augmentation to begin the reorganization of the Department's current mental health delivery system, including a \$1,000 increase to place the issue in Conference.
- Denial of a \$3.5 million (GF) Finance Letter for additional staff and resources to aid in the defense of a Conditions of Confinement Class Action Lawsuit.
- A \$1.5 million (GF) reduction in parole services. The Administration proposed a \$5 million reduction and the Subcommittee restored \$3.5 million from savings in the previous issue.
- Rejects the Governor's proposal to incorporate an inflation adjustment to the sliding scale fees charged to counties for wards committed to the Youth Authority. This action saves counties approximately \$7.6 million in additional costs, and results in the loss of a like amount of savings to the General Fund identified in the May Revision.

**Department of Corrections** – Notwithstanding continued legislative criticisms of the Department's operations and ongoing structural budget deficiencies, the May Revision includes a set-aside of approximately \$170 million (GF) to partially fund over \$270 million in identified budget deficiencies in the current year. Given that the fiscal year is almost complete, it is highly probable that the Department will end the year with a \$100 million budget deficit, and that structural budget deficiencies will continue next year.

In addition, the May Revision continues to budget for the receipt of \$208.3 million in federal State Criminal Alien Assistance Program (SCAPP) funds which partially offset General Fund costs of incarcerating undocumented foreign nationals in state prison. We note that the federal budget proposes to eliminate funding for this program.

As a result of these two pressures, the estimated \$516 million General Fund Reserve proposed in the Governor's May Revision is probably overstated by \$308 million.

With respect to the Department of Correction's budget, SB 1261 adopts the majority of the Governor's proposals but makes significant changes, including:

- A reduction of \$957,000 (GF) and 12.5 positions to reflect the elimination of funding related to the construction and activation of the Delano II prison.
- A \$2.8 million (GF) augmentation to restore funding for the 5 private prisons proposed for deactivation by the Governor.
- A \$1.4 million augmentation to restore 425 Community Correctional Re-entry Center beds and increase their reimbursement rate from \$52 to \$56 per day.
- A \$1.5 million (GF) reduction to eliminate funding for the Department's Offender Employment Continuum program.
- A \$125,000 (GF) reduction to fund expanded Foreign Prisoner Transfer efforts by the Board of Prison Terms.
- A \$1.1 million (GF) augmentation to reflect the termination of a private prison facility contract with the City of Folsom.
- Adoption of a \$10 million (GF) Finance Letter to reduce the Civil Addict program by limiting participation to 954 inmates.
- Adoption of a \$16.7 million (GF) reduction related to increasing work credits for fire camp inmates.
- Adoption of \$80 million (GF) of a proposed \$115.5 million Finance Letter for increased costs of contract medical services. This will likely cause a \$35 million deficiency in the Department's 2002-30 budget.
- Adoption of a \$18 million (GF) Finance Letter for structural utilities shortfall.
- Adoption of \$64.5 million (GF) for structural workers' compensation shortfall.
- Adoption of \$9.8 million (GF) for structural overtime shortfall.

## GENERAL GOVERNMENT

**Vacant Position Elimination** - SB 1261 proposes to eliminate 4,000 vacant positions and recognizes budget year savings of \$10 million in General Fund and \$10 million in special funds. The Administration also says that greater savings, perhaps as much as \$200 million, may be recognized from this proposal in the 2003-04 fiscal year. The Administration is also proposing trailer bill language to revise the Government Code that controls how continuously vacant positions are eliminated to make it more difficult for departments to play the "shell game" documented by Senate Republicans. While this proposal is a step in the right direction, it only addresses the tip of the iceberg. Currently there are over 24,362 positions vacant.

**Department of Information Technology** - The Governor's May Revision included a \$2.8 million reduction to the DOIT budget with \$1.5 million of those funds being re-directed to the Department of General Services to provide funding for the Governor's executive information technology services. This leaves about \$6 million in General Fund resources in the DOIT budget, which the Administration states it is "setting aside" for discussions with the Legislature on how to "revamp" the information technology responsibilities formerly performed by the DOIT. Budget Subcommittee #4 rejected the May Revision proposal and therefor fully funded the DOIT budget.

**Payment of Interest on General Fund Loans** - The Governor's Budget and May Revision rely very heavily on internal and external borrowing. In April, the Administration announced support for a \$7.5 billion Revenue Anticipation Warrant (RAW). The RAW will require significant new interest costs to the state General Fund which were not budgeted in January. Accordingly, SB 1261 proposes a \$254 million augmentation to pay these interest costs.

**Department of Consumer Affairs:**

- SB 1261 includes a \$200,000 augmentation to the Athletic Commission for regulation of mixed martial arts. This proposal includes a trailer bill which would specifically authorize the Commission to provide state regulation. This is NOT an Administration proposal.
- SB 1261 includes a \$74,000 reduction to the State Athletic Commission as part of the May Revision.
- SB 1261 includes a \$41,000 reduction to the Consumer Information Center as part of the May Revision.

**Department of Housing and Community Development:**

- SB 1261 includes a \$6 million reduction to the Emergency Housing Assistance Program leaving a balance for this program of \$5.3 million.
- SB 1261 transfers, loans and shifts funds totaling \$13.4 million from various housing programs in order to increase resources to the General Fund.

**Department of Real Estate** - SB 1261 includes a loan from the Real Estate fund to the General Fund of \$10 million. This loan will likely result in fee increases for real estate brokers in 2003-04.

**Trade and Commerce Agency** - SB 1261 includes numerous reductions in programs, suspension in programs and elimination of Trade and Commerce programs. These include:

- \$100,000 reduction to the Biomass Energy Grant Program.
- \$2 million reduction to the Foreign Trade Office Program.
- \$2.566 million reduction to reflect the elimination of the Regional Trade offices.
- \$2.4 million reduction to the Manufacturing Technology Program.
- \$1 million reduction to the Office of Military Base Reuse and Retention program.
- \$1 million reduction to suspend the Next Generation Internet Centers program.
- \$1 million reduction to suspend the Space Industry Development Grant Program.
- \$300,000 reduction to the Film Commission.
- \$239,000 reduction to the Office of Foreign Investment.
- \$400,000 reduction to the Office of Export Development.
- \$627,000 reduction to the Marketing and Communications Division.
- \$803,000 reduction to the Division of Science, Technology and Innovation.
- \$538,000 reduction to Business Development Support.
- \$500,000 reduction to eliminate the Defense Adjustment Matching Program.
- \$226,000 reduction to eliminate the Office of Permit Assistance.
- \$448,000 reduction to eliminate the Economic Development Support program.
- \$89,000 reduction to eliminate the Regulation Review Unit.

In addition to the reductions, suspensions and eliminations, the May Revision would transfer or loan \$27.1 million from various Trade and Commerce Agency funds to the General Fund.



**Department of General Services:**

- SB 1261 includes a \$23 million augmentation for preliminary plans, working drawings and construction costs for the renovation of the Bonderson Building in Sacramento.
- SB 1261 includes a \$1.5 million augmentation for Teale Data Center Costs
- SB 1261 includes a \$276,000 augmentation for postal rate increases

SB 1261 also reflects reductions to DGS. These include:

- \$12.8 million for the Cal-Buy eProcurement System.
- A reduction of \$1.2 million for operation of the California Portal.
- A \$300,000 reduction to the Asbestos Abatement / Underground Storage Tank program.

**Governor's Office** - SB 1261 includes a \$200,000 reduction to the funding for the Governor's Office.

**Lt. Governor's Office** - SB 1261 includes a \$50,000 reduction to the Lt. Governor's Office funding.

**Secretary of State** - SB 1261 includes a \$950,000 reduction to the operations of the Secretary of State (SOS). This reduction is to activities that will not affect the election-related functions of the SOS.

**Department of Insurance**

- SB 1261 shifted \$1.8 million in funding from the General Fund to the Insurance Fund for support the Premium Tax Program.
- SB 1261 includes a \$628,000 augmentation for a two year pilot program investigating workers' compensation criminal activity.
- SB 1261 includes a \$10 million loan from the Insurance Fund to the General Fund.

**State Controller's Office:**

- SB 1261 includes a \$1.073 million augmentation for the increased cost of processing and mailing warrant and remittance advice documents.
- SB 1261 includes a \$1.064 million augmentation for the Unclaimed Property Amnesty Program.

**California Science Center** - SB 1261 includes a \$1.1 million reduction to the operations of the California Science Center.

**Office of Planning and Research:**

- SB 1261 includes a \$861,000 augmentation for the Cesar Chavez Day Grant Program. This action was taken by Senator Polanco.
- SB 1261 includes the May Revise \$139,000 reduction to the funding for the Cesar Chavez Day of Service and Learning Grant Program.
- SB 1261 includes a \$372,000 reduction to the Service and Volunteerism program.

**Franchise Tax Board** - SB 1261 includes numerous augmentations to the FTB budget. These include:

- An augmentation of \$6.2 million and 78 positions to increase tax collection activities. In addition, SB 1261 includes another augmentation proposed in the May Revise of \$3.78 million and 51 positions to further increase tax collection activities.
- An augmentation of \$3.3 million and 34 positions to allow the FTB to implement a tax settlement program.
- An augmentation of \$704,000 for postage stamp cost increases.
- \$799,000 and 14 positions to expand the Integrated Non-Compliance Project.
- An augmentation of \$520,000 and 4 positions to reduce the tax settlement backlog.

**California Arts Council** - The CAC budget includes several major reductions and redirections including:

- \$575,000 reduction to the CAC support budget operations.
- \$7 million reduction to the CAC local assistance budget.
- \$759,000 reduction to the Challenge Grant Program.
- \$1 million redirection of a \$2 million appropriation for the Simon Wiesenthal Center. The funds are redirected into general local assistance grants.

**Office of Emergency Services** - SB 1261 proposes a reduction of \$5 million General Fund for local disaster assistance.

**Department of Personnel Administration** – SB 1261 includes the following:

- A reduction of \$305,000 (GF) and 4 positions related to collective bargaining and MOU negotiation workload.
- A reduction of \$1.8 million (GF) due to lower than anticipated enrollment in the Rural Health Care Equity program.

**Military Department** – SB 1261 includes a reduction of approximately \$3 million to eliminate funding for the Turning Point Academy. In its two years of operation, the Governor's highly touted juvenile boot camp has spent approximately \$15 million to counsel 15 cadets on the evils of bringing guns to school. In addition, SB 1261 includes the following significant Administration proposals:

- A \$900,000 (GF) reduction to the department's youth programs,
- A \$900,000 (GF) baseline reduction, including 4.5 positions, and
- A \$6 million reduction in federal funds for bridge security.

**Employee Compensation** – SB 1261 includes an augmentation of \$89.5 million (\$54.5 million GF) to address additional employee compensation costs primarily the result of significant increases in health benefit premiums.

**Retirement Contributions:**

- **California Public Employees' Retirement System (CalPERS)** – Based on a June 30, 2001 actuarial valuation, the State's 2002-03 General Fund obligation to CalPERS is estimated to increase to \$583.8 million, an increase of \$75.9 million over the January Budget.
- **State Teachers' Retirement System (STRS)** – Due to a higher-than-anticipated increase in the 2001 calendar year teacher payroll base, which is the basis for the statutory formula, the General Fund contribution to STRS will increase to \$975.5 million, an increase of \$42.7 million over the January Budget.

## LOCAL GOVERNMENT

**Booking Fees** – SB 1261 includes the Governor's proposal to eliminate \$38.2 million (GF) paid to City Police Chiefs for the costs that counties charge cities for booking arrestees into county jails.

**Public Safety Technology Grants** – SB 1261 includes the Governor's proposal to reduce the amount proposed in the budget from \$35.4 million (GF) to \$18.5 million, for a savings of \$16.9 million. In addition, the Senate rejected the proposal to establish this program in statute and instead adopted budget bill language controlling the allocation of funds.

**Citizens' Options for Public Safety (COPS) / Juvenile Crime Prevention Grants** – The May Revision proposed to continue funding for the COPS program at \$121.3 million and eliminate funding for Juvenile Crime Prevention Program resulting in a savings of \$111.3 million (GF).

- SB 1261 includes the proposed savings of \$111.3 million (GF), but splits the remaining \$121.3 million between the COPS and the Juvenile Crime Prevention Programs, resulting in a 50-percent cut to the COPS program. As a result of this cut, local law enforcement agencies indicate they may be forced to lay-off up to 400 officers.

**Williamson Act Subvention** - SB 1261 includes a \$39 million elimination of Williamson Act subventions to local governments.

**Local Government Mandates** - SB 1261 includes \$30 million reduction in the current year and \$168 million in the budget year for payments to local governments for state mandated programs. In addition, the May Revision assumes budget bill language is adopted that will save an additional \$17.8 million in existing balances for various past mandate claims that have not been paid. **In total, SB 1261 will reduce payments to local governments for mandated costs of \$246.1 million.** The Administration is NOT proposing to suspend or eliminate these mandates, but rather, to suspend the payments to some future date.